AAPA Conference
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Outline

- Disclaimer
- Basic Premises
- Being Ready to Borrow
- Vocabulary
- Conclusion
The ideas and views expressed are based on the experiences of the Port of Los Angeles. The opinions and ideas presented are solely that of the speaker.
Basic Premises

- Identify the purposes of borrowing and the sources of repayment
- Set priorities
- Understand the costs and obligations of borrowing
  - It’s not just the interest costs
  - Debt service reserves
  - Fees
  - Financial covenants
  - Reporting requirements
Basic Premises

- Know the risks
  - Administrative
    - Staffing
    - Skill sets
  - Market
    - Will financial options be available
    - Timing
- Let financial models help guide you
Being Ready to Borrow

- Do the key parties understand the risks
- Have a clear set of financial policies as a guide
  - Can be as simple and as complex as you wish – straightforward is better
- When matching repayments to revenues
  - Projects that generate revenues should have some clearly defined standard for rates of return
    - When is a grant not free?
  - Projects that do not generate revenues
Some Vocabulary of Borrowing

- Don’t be intimated by vocabulary
- **Bond** – a debt instrument that obligates the borrower to repay over a period of time. Viewed as long term obligations, bonds may have maturities anywhere from 1 to 30 years.
- **Commercial Paper** – debt instruments that generally mature in 270 days or less.
  - Lower cost than long term bonds
  - Generally needs a bank at additional cost to provide support
  - Subject to an ability to re-issue at the time of maturity
Additional Vocabulary of Borrowing

- **AMT Bonds** – Bonds that are issued that are subject to the Alternative Minimum Tax
  - Issued to support “private activity”, generally those projects that earn money
  - Interest cost will be higher for the issuer

- **Non-AMT Bonds** – Bonds issued that are not subject to the AMT
  - Bonds that fall into this category will cost the issuer less in interest
  - Issued to finance “public” or governmental projects
More Vocabulary of Borrowing

- **Investor Community**
  - Rating Agencies – Entities that rate the bonds issued. There are three of them: Moody’s, Standard & Poor’s and Fitch Ratings. Understand their role and your relationship with them
  - Debt Ratings – Ranges from AAA to C
  - Bondholders

- **Insurance/Surety**
  - Or lack thereof

- **Disclosure**
  - The role of information
Even More Vocabulary of Borrowing

- **Underwriters/Investment Banks** – Firms that will sell your bonds into the marketplace
  - Known as “underwriters” because in theory, they underwrite, meaning buy, all of the bonds that you issue and re-sell them
  - Once a firm underwrites, in theory, you have all the money you intended to raise.
  - *They are in business to make money*

- **Financial Advisors** – Firms that exist to assist municipalities in navigating the financial marketplace
Summary

- Policies
- Clear priorities
- Financial staff
- Investors
- Rating Agencies
- Investment Banks
- Financial Advisors
The End